

EXHIBIT J

argue that their efforts to strengthen the rule of law in the face of violence from drug traffickers, guerrillas and former paramilitaries will be undermined by failure to approve an FTA.

This is a powerful point and an objection to the whole structure of trade agreements that is now evolving in Latin America. If the agreements with Peru and Panama are approved, the effect would be to divert trade and investment from Colombia. A recent study by EAFIT, a university in Medellín, and the University of Antioquia found that if the Colombia FTA is not approved and the others are, Colombia's GDP would be 2.2% smaller and 400,000 jobs would be lost.

Some Democrats, at least, recognise

that this would be a perverse outcome. Mr Hakim reckons there is a chance the Colombia agreement could be ratified next year—but only if Mr Uribe's government takes further steps to protect trade unionists, and these are seen to be working.

The United States' hard-nosed approach to trade is winning few friends in Latin America. That may become apparent in Costa Rica, which is holding a referendum on October 7th on whether to ratify CAFTA-DR. Polls suggest the result will be close, but opponents appear to have momentum. They recently assembled more than 100,000 protestors in San José, the capital. Although Oscar Arias, the president, insists the accord is vital to his country's future, his government may have

overplayed its hand. Last month one of his vice-presidents resigned after the leaking of a memo in which he advocated scare tactics such as painting opponents as allies of Mr Chávez. Some are—but others merely think CAFTA-DR a bad deal, especially in its intellectual-property clauses.

If the American Congress does ratify the pending FTAs, turning its back on CAFTA-DR could cause Costa Rica to lose jobs—a fate that may also await Bolivia and Ecuador. This whole mess underlines that bilateral deals are a third-best option after the Doha Round or the FTAA. But for those Latin American countries that are ambitious to expand their share of the biggest market for manufactured exports, they are the only game in town. ■

Peru

Trade, timber and tribes

The Democrats in the United States take on the loggers in Peru

SEPAHUA, a ramshackle town on the edge of Peru's Amazon jungle, nestles in a pocket on the map where a river of the same name flows into the Uribamba. That pocket denotes a tiny patch of legally loggable land sandwiched between four natural reserves, all rich in mahogany and accessible from the town. "Boundaries are on maps," says a local logger, "maps are only in Lima," the capital.

In 2001 the government, egged on by WWF, a green group, tried to regulate logging in the relatively small part of the Peruvian Amazon where this is allowed. It abolished the previous system of annual contracts. Instead, it auctioned 40-year concessions to areas ruled off on a map, with the right to log 5% of the area each year. The aim was to encourage strict management plans and sustainable extraction.

A recent study using satellite data by America's Carnegie Institution found that this policy did limit damage to the forest, at least until 2005. But greens on the ground say that the system gives loggers an incentive to overestimate the number of valuable trees in their patch. Some have filled their puffed-up yearly allowance with mahogany taken from natural reserves and from Indian land. A report by the forestry regulator found that only 22 of the 79 concessions it investigated contained as much mahogany as the loggers claim.

As loggers venture into reserves such as Alto Purús, they have clashed with isolated Indian groups, with killings on both sides. Last month government ecologists spotted from the air 21 members of a hitherto uncontacted tribe on the



banks of the Río de las Piedras. Peru's Amazon Indian association reckons there are still 15 such groups.

Greens say that under the new system, just like the old, much of the timber exported from Peru (officially \$200m last year) is cut illegally, with the connivance of the authorities. They have won the support of the Democrats in the American Congress, who insisted on inserting a "timber annexe" in the free-trade agreement with Peru. This gives Peru 18 months to hire more forestry inspectors, set up a stronger forestry regulator and stiffen penalties for illegal logging. It will also allow American officials to halt suspicious shipments at the border, and to visit Peru to see where they come from.

Few in Peru welcome such intrusion. Will it succeed in reducing the trade in illegal mahogany? Some reckon that better enforcement will indeed help to preserve the forest—though where Peru will get the funds for this is not clear.

Ecuador

Correa's victory

QUITO

A mandate for "21st century socialism"

HE CALLED it the "mother of all battles" and Rafael Correa, Ecuador's new young president, appears to have won it. According to an unofficial count of the results of an election on September 30th for a Constituent Assembly, Mr Correa's supporters, grouped in a new outfit called Acuerdo País ("Agreement for the country"), won some 70 or more of the 130 seats. That gives the president a clear mandate to write a new constitution reflecting the "21st century socialism" he espouses.

Just what this will entail remains unclear. On the one hand, Mr Correa says the assembly has the power to dissolve the Congress, dominated by his opponents in the traditional parties, which was elected at the same time as him last year. This is the same *modus operandi* deployed by Venezuela's Hugo Chávez, with whom Mr Correa is friendly.

But on the other hand, Mr Correa has recently stressed that his intentions are not authoritarian and that he doesn't want to copy Mr Chávez's project of abolishing presidential term limits. Socialism is a "principle not a regime", he said. He added that he was willing to hold friendly discussions with private business about his plans for a "solidarity economy". The signs are that his constitutional plans will involve an increase in presidential powers and in the role of the state in the economy—but by how much?

The uncertainty partly stems from the president's mercurial personality: he has flip-flopped between belligerence and moderation over the past year. It is also because Acuerdo País is a heterogeneous lot. Some of Mr Correa's advisers would be ►►